

Ittehad Chemicals Limited

Annual Report 2003

Our Vision

To be a sustainable and growth oriented Company who plays competitive role in industry and adds value to economy through excellence in technological advancement and quality products

Our Mission

The mission of Ittehad is to be

A Company built on sound financial footings that achieves excellent operating results through efficiency and cost control

A Company that consistently benefits its stakeholders through enhanced quality and profitability

A Company that achieves a high level of customer care service by providing quality products and positive feedback

A Company that provides excellent working environment to its employees that assists in enhancing their strengths and abilities, create cultures that foster motivation and promote individual growth

A Company that contributes towards a good corporate citizenship and sets highest standards in serving the society

Director's Report to Shareholders

The board of directors of Ittehad Chemicals Limited feels pleasure to present the annual report and the audited financial statements of the Company for the year ended June 30, 2003.



Review of operations

The year 2003 had been reasonably satisfactory for the Company keeping in view the mixed growth trend in the Pakistan economy. The Company has shown improvement in sales by 6% in volume and 1.10% in amount as compared to previous year. Fuel and power costs comprise about 70% of the total cost of production. Increase in power tariff by 8.28% in November 2002 has badly affected the gross margin. However we have small synergy due to low rate of tax applicable for listed companies and good management of administrative expenses. Your Company has endeavored to bring improvement in its production technology and to control manufacturing costs in order to contribute to the economy by providing quality products to the end users besides contributing to the exchequer in the form of taxes. For this purpose the Company is in the process of increasing the existing production capacity under its expansion program and setting up its own energy unit.

Operational Results

Manufacturing expenses other than Fuel and power and employees costs have been closely monitored and shown reduction in aggregate thus casting positive effect on gross margin. Due to fault in one of the rectifier transformer in first quarter of the year under review, production of caustic soda liquid had been reduced which resultantly decreased the consumption of raw material during the period.

Sharp decrease in rates of mark up towards banking sector during the year had shown positive impact on financial costs of the Company. The Company had reaped full advantage of this decrease in rates and as a result, interest on project loans had significantly taken down. But increase in finance charges on short term running finances was because of utilization of facilities for payment of huge electricity bills.

During June 2003 your company launched Term Finance Certificates "TFCs" of Rs. 250 million. Out of this Rs. 50 millions were offered to general public and by the grace of Almighty Allah general public showed a great confidence on your company and this offer was oversubscribed by more than 5 times. The TFC issue has been assigned a rating of A (single A) vide report dated May 26, 2003 by JCR-VIS, an independent credit rating agency incorporated in Pakistan.

Cash flows from operating activities showed cash inflow of Rs. 173.40 million that also includes subscription money refundable to unsuccessful subscribers of the TFCs. Excluding the element of refundable amount, your company got cash outflow of Rs. 39.13 million. This outflow resulted from investment in stores and spares purchased mainly for new plant and increase in trade receivables. Decrease in accrued liabilities emerged from reduction in provision of recoating expenses for DSA anodes used in caustic soda plant and lower accrued expenses as compared to last year. Investment in new plant forms the major part of cash in flow from financing activities and out flow in investing activities.

Industry Review

Caustic soda is one of the basic chemicals used in various industries such as textile, soap and detergent, paper and board, vegetable oil refining, thermal power units, food processing industry, sugar industry, rayon and celluric manufacturing and water and waste water treatment. The largest users in Pakistan are textile and soap industries.

Keeping in view the existing demand and supply position and expected growth in textile sector with limited number of competitors the demand for caustic soda is expected to increase further and your Company is ready to meet the challenge.

Expansion Plan

In view of the increasing demand of caustic soda in the country, your Company has installed a new plant that will enhance production capacity from 64,020 metric tons per annum to 110,590 metric tons per annum. However the Company expects that caustic soda production will be around 85,000 to 90,000 metric tons for the next year subject to market forces. This expansion is based on the Ion Exchange Membrane technology and it is estimated that it will consume 2,200 kilo watt hour (KWH) per ton of caustic soda as against the current level of 3,200 kilo watt hour (KWH) per ton of caustic soda thus leading to improved operational efficiencies thereby reducing the power bill considerably.

The plant has been purchased from ELTECH Systems Corporation, U.S.A., which is one of the leading suppliers in the chlor-alkali plant technology. The plant has been almost fully erected and is now under trial production.

Power risk & investment in power unit

Since power is currently supplied by the WAPDA distribution system frequent breakdowns, fluctuations and rapid tariff increases entail the risk of production losses and shrinking profit margins. In order to mitigate this risk your Company is exploring opportunities to set up own power generation plant or power generation through its subsidiary Company, Ittehad Energy Limited subject to issuance of necessary power generation license from by NEPRA.

Future Outlook

More than 60% of caustic soda production goes into textile and soap sectors. Demand for caustic soda is expected to increase further because of prospective increase in production in these industries.

In the present scenario, the textile industry will get a boost on account of increase of quota by the European Community on Pakistan made textile goods. It will result in increase of demand of caustic soda. Besides, Afghanistan is a traditional market of Pakistan merchandise including soap, textile goods and vegetable ghee. Peace in Afghanistan will boost the requirement of the said Pakistan made products in which caustic soda and chlorine are widely used. If the dust finally settles down, there is also a possibility of these chemicals being exported to Central Asian States through Afghanistan.

Appropriation of Profit

The board recommends that the available profit be appropriated as follows:

	Rupees in "000"
Total profit available for appropriation	198,370
Appropriation:	
Proposed final dividend @ 15% (Rs. 1.50 per share)	37,500
Unappropriated profit carried forward	160,870
Earning per share in Rupees	1.89

Statutory payments

Details of outstanding statutory dues are included in note No. 14 of the financial statements.

Board Meetings

Attendance of directors at five board meeting held during the year was as follows:

Names of Directors	No of Meetings Attended	
Mr. Abdul Aziz Khatri	5	
Mr. Mansoor Ahmed Khatri	5	
Mr. Abdul Rauf	3	
Mr. Abdul Sattar Khatri	5	
Mr. Mohammad Siddique Khatri	5	
Mr. Abdul Ghafoor	2	
Mst. Fakhra	0	Resigned on June 24, 2003
Mr. Ghulam Mustafa Khatri	1	Appointed on June 24, 2003

Provident Fund

Value of investments in provident fund as per un-audited accounts as on June 30, 2003 was Rs. 1.998 million.

Seven Year Summary of Financial Results

Summary of Financial Results for the last seven years is annexed with this report.

Auditors

The auditors M/s Ebrahim & Co., Chartered Accountants retire at the conclusion of the 12th Annual General Meeting and being eligible, offer themselves for re-appointment. The Audit Committee recommends the appointment of M/s. Ebrahim & Co., Chartered as auditors for the year ending June 30, 2004.

Pattern of Shareholding

Pattern of shareholding of the Company as on June 30, 2003 is attached to this report together with additional information required under the Code of Corporate Governance.

Corporate and Financial Reporting

- a. The financial statements, prepared by the management of the listed company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b. Proper books of account of the listed company have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the listed company's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations

Compliance with Code of Corporate Governance

The Company's statement of compliance with the Code of Corporate Governance is annexed with this report.

Statement of Ethics and Business Practices

The board has adopted the statement of Ethics and Business Practices. All the employees are informed of this statement and are required to observe the rules of conduct contained therein.

Audit Committee

The board has established an Audit Committee, It comprises of following three members, majority of whom, including the Chairman of the Committee are Non-executive Directors.

1.	Mr. Mansoor Ahmed Khtari	Chairman
2.	Mr.Mohammad Siddique Khatri	Member
3.	Mr.Abdul Sattar Khatri	Member

Acknowledgement

We thank the shareholders of the Company, our valued customers, bankers, financial institutions and suppliers for their support and assistance. We also thank executives and employees of the Company for their dedication and hard work and hope to get the same cooperation in future.

For and on behalf of the board

Abdul Aziz Khatri
Chairman & Chief Executive

Lahore: September 18, 2003

Statement of Ethics and Business Practices

Ittehad Chemicals Core Principles

At the core of ICL are the values of integrity, honesty and respect for people, and our reputation is founded on these. The trust and confidence of those with whom we deal is a real asset, critical for achieving continued growth and success.

Ittehad Chemicals Code of Conduct

Business Integrity

ICL insists on integrity, honesty and fairness in all aspects of our business.

All business transactions must be reflected accurately and fairly in ICL's accounts in accordance with established procedures.

Our Commitment to Our Stakeholders

We at ICL recognize our corporate responsibility to five main groups of stakeholders. We are committed:

(a) To Shareholders

We believe in honoring the trust, our investors place in us. We therefore have a responsibility to:

- Apply professional and diligent management in order to secure a fair and competitive return on our shareholder's investment;
- Keep all the shareholders prudently informed regarding matters related to business;
- Conserve, protect, and increase the shareholders value of investment;
- Respect shareholders requests, suggestions, complaints, and formal resolutions.

(b) To Employees

We believe in the dignity of every employee and in taking employee interests seriously. We therefore have a responsibility to:

- To provide and maintain safe conditions of work, with competitive terms and conditions of employment.
- Insist on a policy of diversity, by selecting, developing and retaining employees on the basis of ability and qualifications for the work to be performed, without any form of discrimination and prejudice.
- Encourage the involvement of employees in the planning and direction of their work.

(c) To Customers

We believe in treating all customers with dignity. We therefore have a responsibility to:

- Win and retain customers by developing and providing products that offer value in terms of price, quality, safety and environmental impact.
- Be responsive to customer comments and complaints.
- Treat our customers fairly in all aspects of our business transactions

(d) To Suppliers

Our relationship with suppliers must be based on mutual trust and respect. We therefore have a responsibility to:

- Seek fairness and truthfulness in all our activities;
- Ensure that our business activities are free from coercion;
- Foster long-term stability in the supplier relationship in return for value, quality, competitiveness and reliability;
- Seek, encourage and prefer suppliers whose employment practices respect human dignity.

(e) To the Community

We conduct business as responsible corporate citizens, observe the laws of our country, give proper regard to the health, safety and the environment, and be sensitive to and supportive of our local cultural, social, educational and economic needs.

Health, Safety and the Environment

We have established safe and healthy working conditions for all our employees.

To this end, we measure, appraise and report performance on the basis of continuous improvement and with the longer-term aim of enhancing the sustainability of our business and that of our customers and suppliers.

Compliance, Monitoring and Reporting

Compliance with this Code is monitored and reviewed by the ICL Board, as part of its risk management process. Day-to-day responsibility in this regard is delegated to senior operating management.

ITTEHAD CHEMICALS LIMITED
BALANCE SHEET
AS AT JUNE 30, 2003

	NOTE	2003 (RUPEES 000's)	2002
NON CURRENT ASSETS			
Operating fixed assets	3	666,717	237,963
Mercury in cells		27,715	24,911
Mercury held for capital expenditure		1,228	1,926
Spares held for capital expenditure	4	82,620	28,168
		<hr/>	<hr/>
		778,280	292,968
Long term investments	5	57,538	56,258
Long term security deposits		6,808	6,808
Deferred cost	6	3,269	-
		<hr/>	<hr/>
		845,895	356,034
CURRENT ASSETS			
Stores and spares	7	106,778	98,224
Stock in trade	8	40,395	39,651
Trade debts	9	148,748	104,542
Advances, deposits, prepayments and other receivables	10	151,306	149,072
Cash and bank balances	11	286,742	16,203
		<hr/>	<hr/>
		733,969	407,692
CURRENT LIABILITIES			
Current portion of long term liabilities	12	71,277	12,275
Short term running finances	13	56,967	103,927
Creditors, accrued and other liabilities	14	144,076	159,477
Refundable to unsuccessful subscribers of Term Finance Certificates	15	212,525	-
Dividend	16	37,500	37,500
		<hr/>	<hr/>
		522,345	313,179
NET CURRENT ASSETS		<hr/>	<hr/>
		211,624	94,513
		<hr/>	<hr/>
		1,057,519	450,547
		<hr/>	<hr/>

	NOTE	2003 (RUPEES 000's)	2002
Share capital	17	250,000	250,000
Unappropriated profits		160,870	151,228
Shareholder's equity		<u>410,870</u>	<u>401,228</u>
NON CURRENT LIABILITIES			
Redeemable capital	18	250,000	-
Long term loans	19	368,945	21,782
Liabilities against assets subject to finance leases	20	218	725
Deferred liabilities	21	27,486	26,812
		646,649	49,319
CONTINGENCIES AND COMMITMENTS	22		
		<u>1,057,519</u>	<u>450,547</u>

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

ITTEHAD CHEMICALS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2003

	NOTE	2003	2002
		(RUPEES 000's)	
Sales	23	1,321,118	1,307,119
Cost of sales	24	1,156,066	1,125,734
Gross profit		165,052	181,385
Other income	25	2,705	18,624
		167,757	200,009
Administrative and selling expenses	26	70,490	83,559
Other charges	27	8,335	9,585
		78,825	93,144
Operating profit		88,932	106,865
Financial charges	28	12,871	10,405
Profit before taxation		76,061	96,460
Taxation	29		
Current		19,980	36,100
Prior		8,241	(7,166)
Deferred		698	14,719
		28,919	43,653
Profit after taxation		47,142	52,807
Unappropriated profit brought forward		151,228	135,921
Balance available for appropriation		198,370	188,728
Appropriation:			
Proposed dividend at 15% (2002: 15%)		37,500	37,500
Unappropriated profit carried forward		160,870	151,228
Earnings per share	30	Rs. 1.89	Rs. 2.11

Note: The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

ITTEHAD CHEMICALS LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2003

	2003	2002
	(RUPEES 000's)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	76,061	96,460
Adjustments for items not involving movement of funds:		
Depreciation/amortization	18,176	19,642
Provision for gratuity (net)	(3)	205
Gain on sale of fixed assets	(590)	(40)
Mercury consumed	7,226	5,154
Provision for doubtful debts, advances and deposits (net of recovery)	763	603
Financial charges	12,871	10,405
Liabilities no longer payable	-	(1,840)
Deposits and advances written off	6	31
Gain on sale/transfer of investment	-	(15,888)
Provision for obsolete stores & spares	-	19,830
	114,510	134,562
Decrease/(Increase) in current assets		
Stores and spares	(63,006)	(15,592)
Stock in trade	(744)	4,027
Trade debts	(44,448)	27,350
Advances, deposits, prepayments and other Receivables	5,311	(19,267)
	(102,887)	(3,482)
(Decrease)/Increase in current liabilities		
Refundable against oversubscribed amount of TFC's	212,525	-
Creditors, accrued and other liabilities	(21,174)	6,566
	202,974	137,646
Taxes paid	(35,766)	(103,101)
Gratuity paid	(21)	(25)
Net cash inflow from operating activities	167,187	34,520

2003 **2002**
(RUPEES 000's)

CASH FLOW FROM INVESTING ACTIVITIES

Additions to fixed assets	(63,727)	(30,590)
Adjustment for items not involving movement of funds:		
Transfer from capital work in progress	52,621	1,000
Transfer from leased to owned assets	6,400	17,500
	(4,706)	(12,090)
Additions to capital work in progress	(442,462)	(43,844)
Proceeds from sale of fixed assets	564	40
Mercury purchases	(9,332)	(8,556)
Long term investments	(1,280)	9,500
Long term deposits	-	1,679
Deferred cost	(3,269)	-
Net cash (outflow) from investing activities	(460,485)	(53,271)

CASH FLOW FROM FINANCING ACTIVITIES

Repayment of debentures	-	(538)
Issue of Term Finance Certificates	250,000	-
Long term loan	408,562	9,497
Liabilities against assets subject to finance lease	(3,167)	(2,759)
Financial charges paid	(7,098)	(10,773)
Dividend paid	(37,500)	(37,500)
Short term running finances	(46,960)	59,361
Net cash inflow from financing activities	563,837	17,288
Net increase/(decrease) in cash and cash equivalents	270,539	(1,463)
Cash and cash equivalents at the beginning of the year	16,203	17,666
Cash and cash equivalents at the end of the year 11	286,742	16,203

Note: The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

ITTEHAD CHEMICALS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003

	Issued, subscribed and paid up Capital	Unappropriated profits	Total
	----- (Rupees 000's) -----		
Balance as at June 30, 2001	250,000	135,921	385,921
Profit after taxation for the year	-	52,807	52,807
Dividend	-	(37,500)	(37,500)
Balance as at June 30, 2002	250,000	151,228	401,228
Profit after taxation for the year	-	47,142	47,142
Proposed dividend	-	(37,500)	(37,500)
Balance as at June 30, 2003	250,000	160,870	410,870

CHIEF EXECUTIVE

DIRECTOR

ITTEHAD CHEMICALS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2003

1. LEGAL STATUS AND NATURE OF BUSINESS

Ittehad Chemicals Limited (the Company) was incorporated on September 28, 1991 to takeover the assets of Ittehad Chemicals and Ittehad Pesticides under a Scheme of Arrangement dated June 18, 1992 as a result of which the Company became a wholly owned subsidiary of Federal Chemical and Ceramics Corporation (Private) Limited. The Company was privatised on July 03, 1995 when 90% of the shares were transferred to the buyer.

The Company was listed on Karachi Stock Exchange on April 14, 2003 when sponsors of the Company offered 25% of the issued, subscribed and paid up share of the Company to the general public.

The registered office of the Company is situated at 39, Empress Road, Lahore.

The Company is engaged in business of manufacturing and selling caustic soda and other allied chemicals.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance 1984. Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Cost convention

These accounts have been prepared under the historical cost convention without any adjustments for the effect of inflation or current values except for financial assets and liabilities, if any, in accordance with recognition and measurement criteria as laid down in IAS-39 and recognition of certain employee benefits at present value.

2.3 Staff retirement benefits

The Company operates an un-funded gratuity scheme for its permanent employees. Provision is based on actuarial valuation of the scheme carried out as at June 30, 2003 in accordance with IAS-19 “Employee Benefits” and the resulting vested portion of past service cost has been charged to income in the current year.

Contribution is made to this scheme on the basis of actuarial recommendations. Actuarial gains and losses at each valuation date are charged to profit and loss account. Gratuity is payable to staff on completion of prescribed qualifying period of service under the scheme.

A recognised provident fund scheme is also in operation, which covers all permanent employees. The Company and the employees make equal contributions.

2.4 Taxation

Current

The charge for current year is higher of the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates, if any, and minimum tax computed at the prescribed rate on turnover. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

The Company accounts for deferred taxation, if any, using the liability method on all major temporary differences.

2.5 Tangible fixed assets

These are stated at cost less accumulated depreciation and impairment, if any, except land and capital work in progress which are stated at cost. Cost comprises of actual cost including exchange differences, interest and charges referred to in notes 2.15 and 2.16 respectively.

Depreciation is charged on all fixed assets by applying the reducing balance method at the rates specified in fixed assets note.

Depreciation on major additions and modifications to production facilities during the year are charged for the period commencing from the date of commercial operation of the respective assets and on other additions for the whole year while no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred while cost of major replacements and improvements, if any, are capitalized.

Gains and losses on disposal and retirement of an asset are included in the profit and loss account.

2.6 Accounting for leases

The Company accounts for assets acquired under financial leases by recording the assets and related liabilities.

The amounts are determined on the basis of discounted value of total minimum lease payments and residual value of the assets at the end of the lease period to be paid by the Company.

Financial charges are allocated to accounting periods in a manner so as to provide constant periodic rate of charge on the outstanding liability.

Depreciation is charged at rates specified in the related note to write off the assets over its estimated useful life in view of certainty of the ownership of the assets at the end of the lease.

2.7 Mercury in cells

This is stated at annual moving average cost.

2.8 Mercury held for capital expenditure

This is stated at annual moving average cost.

2.9 Investments

Investments in subsidiary and associates are stated at acquisition cost less impairment, if any.

2.10 Deferred cost

Expenses incurred on issue of Term Finance Certificates (TFC's) are amortised over a period of five years from the date of issue of TFC's.

2.11 Stores and spares

Stores and spares are valued at moving average cost less provision for obsolescence as determined by the management. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

2.12 Stock in trade

These are valued at lower of cost and net realisable value. Cost is determined as follows:

- | | | |
|--------------------------------------|---|--|
| Raw and packing materials | - | Moving average cost |
| Raw and packing materials in transit | - | Invoice value plus other expenses incurred thereon |

Work in process	- Cost of material as above plus proportionate production overheads
Finished goods	- Average cost of manufacture which includes proportionate production overheads including duties and taxes paid thereon, if any

Net realizable value represents estimated selling prices in the ordinary course of business less expenses incidental to making the sale.

2.13 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalent consists of cash in hand and balances with banks net of borrowings not considered as being in the nature of financing activities.

2.14 Impairment

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying value exceeds recoverable amount, assets are written down to the recoverable amount.

2.15 Foreign currency translation

Assets and liabilities in foreign currencies, if any, are translated at exchange rates prevailing at the balance sheet date.

Exchange gains and losses arising on repayments and translation of foreign currency loans are capitalised and incorporated in the cost of fixed assets acquired from the proceeds of these loans. Other exchange differences arising during the year are included in profits currently.

2.16 Interest and charges

Interest and commitment charges on long term loans are capitalised for the period upto the date of commencement of commercial production of the respective plant and machinery acquired out of the proceeds of such loans. All other interest and charges are treated as expenses during the year.

2.17 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

2.18 Trade and other payables

Liabilities for trade and other amounts payable are carried at amortised cost.

2.19 Provisions

Provisions are recognized when the Company has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.20 Revenue recognition

Sales are recognised on despatch of goods to customers. Interest income is recognised on accrual basis.

2.21 Recoating expenses of DSA Plant

Provision has been made in these accounts for the erosion of coating on the anodes during the year based on best estimates available.

2.22 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Any gain or losses on de-recognition of the financial assets and financial liabilities are taken to profit and loss account currently.

2.23 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has legally enforceable right to setoff the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. OPERATING FIXED ASSETS

PARTICULARS	C	O	S	T	RATE %	D E P R E C I A T I O N				WRITTEN DOWN VALUE AS ON 30-06-2003
	AS ON 01-07- 2002	ADDITIONS DURING THE YEAR	(DELETION) DURING THE YEAR	AS ON 30-06-2003		AS ON 01-07-2002	(ADJUSTMENT)	FOR THE YEAR	AS ON 30-06-2003	
Owned										
Freehold land	486	-	-	486	-	-	-	-	-	486
Buildings on freehold land	34,183	-	-	34,183	5 - 10	13,575	-	2,034	15,609	18,574
Railway sidings	1,950	-	-	1,950	10	1,519	-	43	1,562	388
Plant and machinery	227,957	58,121	-	286,078	10	126,459	1,045	11,413	138,917	147,161
Other equipments	33,363	72	-	33,435	15	21,366	-	1,810	23,176	10,259
Furniture and fixtures	2,072	665	-	2,737	10	930	-	181	1,111	1,626
Office and other equipments (Note: 3.1)	4,926	1,826	-	6,752	15-30	2,615	-	897	3,512	3,240
Vehicles	15,467	3,011	(1,122)	17,356	20 - 25	10,318	(560)	1,417	11,175	6,181
	320,404	63,695	(1,122)	382,977	-	176,782	485	17,795	195,062	187,915
Leased										
Vehicles	2,580	32	(900)	1,712	20	730	(324)	381	787	925
Plant and machinery	5,500	-	(5,500)	-	10	1,045	(1,045)	-	-	-
	328,484	63,727	(7,522)	384,689		178,557	(884)	18,176	195,849	188,840
Capital work in progress										
Plant and machinery (3.2)	88,036	428,778	(52,621)	464,193	-	-	-	-	-	464,193
Building - Cell Room	-	13,684	-	13,684	-	-	-	-	-	13,684
	88,036	442,462	(52,621)	477,877	-	-	-	-	-	477,877
TOTAL RUPEES – 2003	416,520	506,189	(60,143)	862,566	-	178,557	(884)	18,176	195,849	666,717
TOTAL RUPEES – 2002	359,345	75,675	(18,500)	416,520	-	158,915	-	19,642	178,557	237,963

3.1 During the year the rate of depreciation on computer equipment has been revised. Had there been no change in rate, the depreciation for the year would have been lower by Rs. 0.276 million.

3.2 Additions in plant and machinery includes interest and charges amounting to Rs. 21.950 million on finances used for the new project.

	Note	2003 RUPEES "000"	2002 RUPEES "000"
3.3 Depreciation charge for the year has been allocated as under :			
Cost of sales	24	16,265	18,413
Administrative and selling expenses	26	<u>1,911</u>	<u>1,229</u>
		<u>18,176</u>	<u>19,642</u>

3.4 Details of fixed assets sold during the year through negotiations are as follows:

Assets description	Cost	Accumulated Depreciation	Written down value	Sale proceeds	Particulars of purchaser
Vehicles	364	364	-	170	Saima Javed, Lahore.
	194	194	-	95	Malik Waseem, Lahore.
	564	326	238	564	Abdul Hamid, Jehlum.
	<u>1,122</u>	<u>884</u>	<u>238</u>	<u>829</u>	

	2003	2002
	(RUPEES 000's)	
4. SPARES HELD FOR CAPITAL EXPENDITURE		
Spares in hand	78,000	28,168
Spares in transit	4,620	-
	<u>82,620</u>	<u>28,168</u>
5. LONG TERM INVESTMENTS		
Investment in subsidiary – Unquoted		
Ittehad Energy Limited		
28,000 (2002:NIL) fully paid ordinary shares		
of Rs. 10/- each (Note: 5.1)	280	-
Equity held: 80 % (2002:NIL)		
Advance against issue of shares	1,000	-
	<u>1,280</u>	<u>-</u>
Investment in associates – Unquoted		
Chemi Visco Fibre Limited		
5,625,000 (2002:5,625,000) fully paid		
ordinary shares of Rs. 10/- each (Note: 5.1)		
Equity held: 7.91 % (2002: 7.91 %)	56,250	56,250
(Chief Executive: Mr. Usman Ghani Khatri)		
Held to maturity		
Other – Quoted		
National Bank of Pakistan Limited		
1995 (2002:1995) fully paid shares of Rs. 10/-		
each (Note: 5.2)	8	8
	<u>57,538</u>	<u>56,258</u>
5.1 Breakup value of unquoted investments based on latest audited accounts is Rs. 56.530 million (2002: Rs. 56.250 million).		
5.2 Market value of quoted investments as at June 30, 2003 was Rs. 0.054 million (2002: Rs. 0.042 million).		

	2003	2002
	(RUPEES 000's)	
6. DEFERRED COST		
Expenses incurred on issue of Term Finance Certificates	3,269	-
7. STORES AND SPARES		
Stores	14,709	27,146
Spares	114,166	93,263
Loose tools	335	247
	<u>129,210</u>	<u>120,656</u>
Less: Provision for obsolete stores and spares	22,432	22,432
	<u>106,778</u>	<u>98,224</u>
8. STOCK IN TRADE		
Raw materials	17,386	18,939
Packing materials	363	477
Work in process	1,112	1,098
Finished goods	21,534	19,137
	<u>40,395</u>	<u>39,651</u>
9. TRADE DEBTS		
Secured		
Considered good	68,418	34,164
Unsecured		
Considered good (Note: 9.1)	80,330	70,378
Considered doubtful	23,259	23,017
	<u>103,589</u>	<u>93,395</u>
	172,007	127,559
Less: Provision for doubtful debts	23,259	23,017
	<u>148,748</u>	<u>104,542</u>

9.1 These include balances due from associated companies aggregating to Rs. 1.838 million (2002: Rs. 15.214 million) comprising the following:

	2003	2002
	(RUPEES 000's)	
Jehlum Silk Mills (Private) Limited	-	7,891
Chemi Visco Fibre Limited.	289	-
Chemitex Industries Limited	1,407	6,509
Chemi Dyestuff Industries (Private) Limited	138	690
Dyechem Industries (Private) Limited	4	124
	<u>1,838</u>	<u>15,214</u>

Maximum aggregate amount remaining outstanding from associated companies at the end of any month during the year was Rs. 21.478 million. (2002: Rs. 25.650 million).

**10. ADVANCES, DEPOSITS, PREPAYMENTS
AND OTHER RECEIVABLES**

Advances – (Unsecured - considered good)		
To employees	2,199	1,849
For supplies and services (Note: 10.1)	7,747	6,894
Against purchase of machinery	-	1,000
Against import	18,971	24,410
Income tax (Note: 10.2)	111,856	104,316
	<u>140,773</u>	<u>138,469</u>
Considered doubtful		
For supplies and services	1,225	1,221
	<u>141,998</u>	<u>139,690</u>
Less: Provision for doubtful advances	1,225	1,221
	<u>140,773</u>	<u>138,469</u>

	2003	2002
	(RUPEES 000's)	
Trade deposits		
Considered good	6,769	7,278
Considered doubtful	364	-
	7,133	7,278
Less: Provision for doubtful deposits	364	-
	6,769	7,278
Prepayments	1,918	1,802
Other receivables		
Income tax refundable	1,473	1,468
Others	373	55
	1,846	1,523
	<u>151,306</u>	<u>149,072</u>

10.1 These include a balance due from Chemi Multifabrics Limited, an Associated Company, amounting to Rs. 0.213 million (2002: NIL).

10.2 The amount comprises as follows:

Advance income tax	172,723	250,351
Less: Provision for tax	60,867	146,035
	<u>111,856</u>	<u>104,316</u>

11. CASH AND BANK BALANCES

Cash in hand	259	1,374
Cash at banks		
In current accounts (Note: 11.1)	286,463	14,690
In deposit accounts	20	139
	286,483	14,829
	<u>286,742</u>	<u>16,203</u>

11.1 This includes an amount of Rs. 212.525 million being refundable to unsuccessful subscribers of TFC issue.

2003 **2002**
(RUPEES 000's)

12. CURRENT PORTION OF LONG TERM LIABILITIES

Long term loans (Note: 19)	70,770	9,371
Liabilities against assets subject to finance leases (Note: 20)	507	2,904
	71,277	12,275

13. SHORT TERM RUNNING FINANCES

Secured

Muslim Commercial Bank Limited (Note: 13.1)	1,703	49,013
Prime Commercial Bank Limited (Note: 13.2)	2	33,439
Metropolitan Bank Limited (Note: 13.3)	-	21,475
Askari Commercial Bank Limited (Note: 13.4)	55,262	-
	56,967	103,927

- 13.1 This facility is secured against first pari passu charge on fixed and current assets of the Company and hypothecation of stock of chemicals and carries mark-up at 8.50% per annum. The limit of facility is Rs. 60.000 million (2002: Rs. 50.000 million).
- 13.2 This facility is secured against first pari passu charge on fixed and current assets of the Company and hypothecation charge over stocks and receivables and carries mark-up at 10.00% per annum. The limit of facility is Rs. 30.000 million (2002: Rs. 30.000 million).
- 13.3 This facility is secured against second charge on fixed assets of the Company and hypothecation charge over stocks and receivables of the Company and carries mark-up at 7.50% per annum. The limit of facility is Rs. 40.000 million (2002: Rs. 20.000 million).
- 13.4 This facility is secured against first pari passu hypothecation charge over current assets of the Company and carries mark-up at 7.00% per annum. The limit of facility is Rs. 80.000 million (2002: NIL).

	2003	2002
	(RUPEES 000's)	
14. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Trade creditors	10,835	8,652
Accrued liabilities (Note: 14.1)	88,961	96,509
Advances from customers	10,137	22,469
Deposits-interest free repayable on demand	13,673	12,891
Accrued mark up/interest		
Secured		
Short term running finances	3,136	2,151
Long term loans	4,649	615
Term finance certificates	754	-
	8,539	2,766
Unsecured		
Interest payable of electricity bills	-	138
	8,539	2,904
Sales tax payable	4,529	3,654
Income tax deducted at source	269	158
Worker's profit participation fund (Note: 14.2)	4,203	5,360
Workers welfare fund	2,852	6,311
Other liabilities – others	78	569
	<u>144,076</u>	<u>159,477</u>

14.1 These include a balance due to Chemi Multifabrics Limited, an Associated Company amounting to Nil (2002: Rs. 3.405 million)

2003 **2002**
(RUPEES 000's)

14.2 Worker's profit participation fund

Balance as on July 01,	5,360	5,628
Interest at prescribed rate	299	353
	5,659	5,981
Less: Amount paid to fund	5,536	5,825
	123	156
Current year's allocation at 5%	4,080	5,204
Closing balance as at June 30	4,203	5,360

The Company retains the allocation of this fund for its business operations till the amounts are paid to the fund.

15. REFUNDABLE TO UNSUCCESSFUL SUBSCRIBERS OF TERM FINANCE CERTIFICATES

This represents the oversubscribed amount of Term Finance Certificates, which was refunded after the result of balloting. As on June 30, 2003 this amount is shown under current assets as mentioned in Note 11.

16. DIVIDEND

Proposed	37,500	37,500
----------	--------	--------

17. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

100,000 Ordinary shares of Rs.10/- each fully paid in cash	1,000	1,000
24,900,000 Ordinary shares of Rs.10/- each issued as fully paid for consideration other than cash	249,000	249,000
25,000,000	250,000	250,000

18. REDEEMABLE CAPITAL

Term finance certificates (TFCs) – Secured

The TFCs have been issued as fully paid scripts of Rs. 5,000 denomination or exact multiple thereof for general public and Rs. 100,000 denomination or exact multiple thereof for Pre-IPO investors. These are listed on Karachi Stock Exchange (Guarantee) Limited subsequent to the balance sheet date i.e. July 30, 2003.

Terms and conditions

Call option

The Company may redeem the TFCs by way of the exercise of the call option by giving notice in writing to the TFC holders and the Trustee at least sixty days prior to the option redemption date. The call option will be exercisable after a period of 18 months from the last date of public subscription.

The call option may only be exercised by the Company with respect to all of the outstanding TFCs.

Put option

The investors have no right to exercise put option.

Rate of return

The return on TFCs is payable semi annually and is calculated at the State Bank of Pakistan's discount rate plus 2.50% per annum with a floor of 7% per annum and cap of 12% per annum.

Principal redemption

Principal amount shall be redeemed in six semi annual installments after a grace period of twenty four months from the last date of public subscription.

Security

The TFCs are secured by way of first pari passu charge on all present and future fixed assets of the Company with 15% margin by hypothecation charge and memorandum confirming constructive deposit of title deeds.

Trustee

In order to secure the interests of the TFC holders, ORIX Investment Bank Pakistan Limited (ORIX) has been appointed as Trustee for the Issue. ORIX will be paid trustee fee at 0.035% per annum of the outstanding principal. The fee shall be payable at the beginning of each year commencing from the date of signing of Trust Deed and on subsequent anniversary thereof.

The Trustee shall ensure that the terms and conditions of the security documents are adhered to and that the interests of the TFC holders are safe guarded by taking actions that it deems necessary in the event of any breach of terms and conditions of the TFC instrument, the Trust Deed and the security documents by the Company.

Redemption reserve

No redemption reserve has been established for redemption of TFCs in view of the projected financial cash flows. The Company shall have adequate funds to meet its financial obligations arising from the issue of TFCs.

2003 **2002**
(RUPEES 000's)

19. LONG TERM LOANS

Secured

Banking companies

Metropolitan Bank Limited (Note: 19.1)	19,372	-
Askari Commercial Bank Limited (Note: 19.2)	100,000	-

	2003	2002
	(RUPEES 000's)	
Financial institutions		
Saudi Pak Agricultural and Industrial Corporation (Note: 19.3)	5,346	14,028
Saudi Pak Agricultural and Industrial Corporation (Note: 19.4)	75,000	-
Pakistan Industrial Credit and Investment Corporation Limited (Note: 19.5)	199,997	-
	399,715	14,028
Less: Current portion shown under current liabilities (Note : 12)	70,770	9,371
	328,945	4,657
Unsecured (Note: 19.6)		
Loans from directors	13,617	7,000
Others	26,383	10,125
	40,000	17,125
	368,945	21,782

- 19.1 This finance is secured against second charge over fixed assets of the Company, and carries markup at 8.00% per annum (SBP discount rate plus 4.5% with maximum of 18.50%) per annum. Loan is repayable in eight equal quarterly installments commencing from April 2003. Last installment is due in February 2005.
- 19.2 This finance is secured against first pari passu charge over fixed assets of the Company and carries mark up at the rate of 8.50 % (1% above SBP discount rate) per annum. Loan is repayable in ten equal quarterly installments commencing from December 2003. Last installment is due in March 2006.
- 19.3 The finance is secured against first pari passu charge over present and future fixed assets of the Company and carries mark up at the rate of 10% per annum (SBP discount rate plus 3 % with minimum of 10 % and maximum of 19.5 % to be paid on quarterly basis). [2002: mark up rate at 17.5 % per annum (SBP discount rate plus 4.50% with maximum of 18.50 percent) per annum]. Loan is repayable in six biannual installments. Last installment is due in October 2003.

- 19.4 This finance is secured against first pari passu charge over present and future fixed assets of the Company and carries mark up at the rate of 10% (SBP discount rate plus 3% with minimum at 10 percent and maximum at 19.5 percent) per annum. Loan is repayable in fourteen equal quarterly installments commencing from November 2004. Last installment is due in February 2008.
- 19.5 This finance is secured against first pari passu charge over all assets of the Company except inventories and carries mark up at the rate of 9.50 % (SBP discount rate plus 2 % subject to a floor of 9.5%) per annum. Loan is repayable in twenty quarterly installments commencing from March 2003. Last installment is due in September 2008.
- 19.6 These loans are unsecured, interest free and are repayable subject to permission of lenders of long term loans.

2003 **2002**
(RUPEES 000's)

**20. LIABILITIES AGAINST ASSETS
SUBJECT TO FINANCE LEASES**

Secured	2003	2002
Balance as on July 01,	3,629	5,147
Addition during the year	-	1,241
	3,629	6,388
Less: Payments during the year	2,904	2,759
	725	3,629
Less: Payable within on year shown under current liabilities (Note: 12)	507	2,904
	218	725

The above liabilities represent the unpaid balance of the total of minimum lease payments and the residual value payable at the end of lease discounted at rates ranging from 9% to 15.6% per annum.

Remaining aggregate rentals of Rs. 0.760 million inclusive of mark-up of Rs. 0.035 million are payable in equal monthly instalments under various lease agreements as follows:

	Upto one Year	One to five Years	Total 2003	Total 2002
Minimum lease payments outstanding	540	220	760	3,927
Less: Finance charges not due	33	2	35	298
Present value of minimum lease payments	507	218	725	3,629
Less: Current portion shown under current liabilities			507	2,904
			<u>218</u>	<u>725</u>

In case of termination of the agreement, the Company shall pay the entire amount of rentals for unexpired period of lease agreement.

Taxes, repair and insurance cost are to be borne by the Company.

Liabilities are secured against personal guarantees of Directors, demand promissory notes and bills of exchange and security deposits of Rs 0.113 million and Rs 0.044 million (2002: Rs 0.113 million and Rs.0.224 million) included in long term security deposits and advances, deposits and prepayments respectively.

At the end of the lease period, the ownership of the assets shall be transferred to the Company on payment of residual values.

2003 **2002**
(RUPEES 000's)

21. DEFERRED LIABILITIES

Provision for gratuity (Note: 21.1 and 31)	1,637	1,661
Deferred taxation (Note: 21.2)	25,849	25,151
	27,486	26,812
	27,486	26,812

21.1 Consequent to a change in accounting policy, provision for gratuity has now been accounted for on the basis of actuarial valuation as per IAS-19, "Employees Benefits". If there had been no change in policy the profit for the year and accumulated profits would have been lower by Rs. 0.287 million.

21.2 Deferred tax liability comprises as follows:

Taxable temporary differences		
Tax depreciation allowances	25,208	24,040
Finance lease arrangements	70	1,204
Deferred cost	1,144	-
	26,422	25,244
Deductible temporary differences		
Provision for gratuity	(573)	(93)
	25,849	25,151
	25,849	25,151

22. CONTINGENCIES AND COMMITMENTS

22.1 Contingent liabilities

a) A writ petition has been filed by Saigol Brothers Limited, against the issue of debentures valuing Rs. 1.482 million (2002: Rs. 1.482 million) being the price of a grid station which originally belonged to them.

These debentures were issued to the income tax authorities in compliance with notice under section 92 of the Income Tax Ordinance, 1979 received by the Company. SBL has claimed that the action of all respondents is wholly without lawful authority and that the respondent could not by unilateral action purchase the said grid station at an arbitrary price of their own choice. SBL had demanded Rs. 4.200 million being a fair price of the grid station at the time of take over.

- b) Claim lodged by Saigol Brothers Limited of Rs. 2.608 million (2002: Rs. 2.608 million) on account of rent of storage tanks at Faisalabad used by the Company from July 1, 1973 to March 10, 1982 of which only Rs. 0.044 million (2002: Rs. 0.044 million) has been acknowledged and provided for in the accounts.
- c) During the year a demand created for assessment year 1996-97 with respect to disallowance of expenditure of non-deduction of withholding tax on payment under Golden Hand Shake and Voluntary Separation Scheme amounting to Rs. 56.437 million has been set aside by the Honorable Income Tax Appellate Tribunal (ITAT) with direction to determine the tax liability using specified methodology. The management is of the view that no liability accrues on these payments and, therefore, filed an appeal to the Learned Lahore High Court. As the information required to compute the tax on the basis of directions given by ITAT is not available, the potential liability can not be determined.
- d) Deputy Commissioner of Income Tax (DCIT) created a demand of Workers Welfare Fund (WWF) amounting to Rs. 1.139 million on the basis of disallowance of expenditure as explained in (c) above in respect of assessment year 1996-97. Subsequently Income Tax Appellate Tribunal (ITAT) has set aside the demand as a consequence of which loss of Rs. 74.296 million has been assessed. The Company has filed rectification application for deletion of the WWF demand.
- e) Department has filed an appeal against the order of Commissioner of Income Tax (Appeals) (CIT) in respect of assessment year 2001-2002 for allowing expenditure including bad debts amounting to Rs. 6.333 million. In the event of adverse decision in appeal the Company would be faced with a tax liability and charge against profit of Rs. 2.723 million (2002: NIL)

- f) There is a contingent liability in respect of various show cause notices issued with respect to sales tax audits conducted for the years 1994-95 to 2001-2002 for recovery of sales tax amounting to Rs. 19.208 million (2002: Rs. 16.434 million) along with additional tax to be calculated at the time of deposit. The management is contesting the show cause notices before the department and expect favorable decisions in the above cases. In the event of adverse decisions the Company would be faced with a tax liability and charge against profit of Rs. 19.208 million. (2002: Rs.16.434 million).
- g) Letters of guarantee outstanding as at June 30, 2003 were for Rs. 19.175 million (2002: Rs.19.079 million).

22.2 Commitments

Commitments as on June 30, 2003 were as follows:

Letters of credit outstanding amounted to Rs. 33.566 million (2002: Rs. 15.591 million)

Capital commitments amounted to Rs. 5.268 million (2002: Rs. 175.408 million).

2003 **2002**
(RUPEES 000's)

23. SALES

Sales	2003	2002
Manufacturing (Note: 23.1)	1,550,097	1,524,973
Trading	261	11,064
	1,550,358	1,536,037
Less: Sales tax	208,784	204,289
Commission	20,456	24,629
	229,240	228,918
	1,321,118	1,307,119

- 23.1 The amount under this head includes export sales amounting to Rs. 3.218 million (2002: Rs. 0.841 million).

	2003	2002
	(RUPEES 000's)	
24. COST OF SALES		
Raw materials consumed		
Opening stock	18,939	27,270
Purchases	117,837	120,085
	136,776	147,355
Closing stock	(17,385)	(18,939)
	119,391	128,416
Other overheads		
Stores and spares consumed	72,878	64,366
Packing materials consumed	885	2,174
Production supplies consumed	4,491	9,560
Mercury consumed	7,226	5,154
Salaries, wages and benefits (Note: 24.1)	57,254	44,868
Fuel and power	845,003	809,786
Repairs and maintenance	23,624	26,661
Insurance	2,721	2,594
Depreciation (Note: 3.3)	16,265	18,413
Vehicle running expenses	5,205	4,303
Postage, printing and stationery	2,030	1,963
Other expenses	1,244	2,247
	1,038,826	992,089
Work in process		
Opening	1,098	1,660
Closing	(1,113)	(1,098)
	(15)	562
Cost of goods manufactured	1,158,202	1,121,067
Finished goods		
Opening	19,137	13,655
Purchases of trading goods	261	10,149
Closing	(21,534)	(19,137)
	(2,136)	4,667
	1,156,066	1,125,734

24.1 This amount includes Rs 1.184 million (2002: Rs. 1.080 million) in respect of employees' retirement benefits.

	2003	2002
	(RUPEES 000's)	
25. OTHER INCOME		
Return on bank deposits and investment		
Certificates	3	226
Gain on sale of fixed assets	590	40
Recovery of bad debts	449	60
Sales of scrap	1,240	485
Rental income on chlorine cylinders	147	75
Gain on sale of investments	-	15,888
Liabilities no longer payable	-	1,850
Reversal of provision of gratuity due to application of IAS – 19 (Note: 21.1)	276	-
	2,705	18,624
26. ADMINISTRATIVE AND SELLING EXPENSES		
Salaries, wages and benefits (Note: 26.1)	21,698	19,046
Travelling and conveyance	6,305	3,408
Advertisement	1,249	612
Telephone, telex and postage	1,442	2,017
Marketing service charges	13,416	13,318
Freight	18,930	18,767
Rent, rates and taxes	1,729	1,571
Printing and stationery	1,195	891
Fuel and power	1,027	1,125
Provision for bad and doubtful debts	1,128	603
Advances and deposits written off	6	531
Provision for obsolete stores and spares	-	19,830
Repair and maintenance	454	610
Depreciation (Note: 3.3)	1,911	1,230
	70,490	83,559

26.1 This amount includes Rs 0.425 million (2002: Rs. 0.369 million) in respect of employees' retirement benefits.

2003 **2002**
(RUPEES 000's)

27. OTHER CHARGES

Legal and professional charges	583	1,574
Expenses on listing of the Company	1,224	-
Auditor's remuneration		
Audit fee	125	110
Tax and certification charges	330	249
Out of pocket expenses	12	18
	467	377
Workers' profit participation fund (Note: 14.2)	4,080	5,204
Workers' welfare fund	1,163	1,688
Donations (Note: 27.1)	818	742
	<u>8,335</u>	<u>9,585</u>

27.1 Donations do not include any donee in whom any Director of the Company or his spouse has any interest.

28. FINANCIAL CHARGES

Markup/interest on:		
Long term loans	1,392	3,064
Mark up on finance leases	263	632
Short term running finances	9,777	5,121
Workers' profit participation fund (Note: 14.2)	299	353
	<u>11,731</u>	<u>9,170</u>
Bank charges and commission	1,117	1,235
Exchange loss	23	-
	<u>12,871</u>	<u>10,405</u>

**29. NUMERICAL RECONCILIATION BETWEEN
THE AVERAGE EFFECTIVE TAX RATE
AND THE APPLICABLE TAX RATE**

(P e r c e n t a g e)

Applicable tax rate	35.00	45.00
Tax effect of amount that are:		
Deductible for tax purposes	(18.47)	(18.68)
Not deductible for tax purposes	10.38	11.42
Effect of charge in prior years	10.83	(7.43)
Chargeable to tax at different rates	(0.64)	(0.30)
Effect of deferred tax charge	0.92	15.25
	3.02	0.26
Average effective tax rate charged to profit and loss account	38.02	45.26
	2003	2002
	(RUPEES 000's)	

30. EARNINGS PER SHARE – BASIC AND DILUTED

Profit after taxation	47,142	52,807
	Number of shares (000's)	
Average issued ordinary shares	25,000	25,000
Earnings per share	Rs. 1.89	Rs. 2.11

31. DEFINED BENEFIT PLAN

31.1 General description

The scheme provides for terminal benefits for all the permanent employees who qualify for the scheme. The defined benefit payable to each employee at the end of his service comprises of total number of years of his service multiplied by last drawn basic salary including cost of living allowance.

Annual charge is based on actuarial valuation carried out as at June 30, 2003 using the Projected Unit Credit Method.

31.2 Significant actuarial assumptions

Following are significant actuarial assumptions used in the valuation:

Discount rate	8% per annum
Expected rate of increase in salary	7% per annum

2003 **2002**
(RUPEES 000's)

31.3 Reconciliation of payable to defined benefit plan

Present value of obligation	1,597	-
Unrecognized actuarial loss	40	-
Liability recognized in balance sheet	<u>1,637</u>	<u>-</u>

31.4 Movement of the liability recognized in the balance sheet

Opening net liability	1,661	-
Reversal of liability due to actuarial valuation	(276)	-
	<u>1,385</u>	<u>-</u>
Charge for the year	273	-
Contribution paid to outgoing employees	(21)	-
Closing net liability	<u>1,637</u>	<u>-</u>

31.5 Charge for the year

Current service cost	162	-
Interest cost	111	-
Charge for the year	<u>273</u>	<u>-</u>

32 Remuneration of Chief Executive, Director and Executives

The aggregate amount charged in the accounts for the year for remuneration, including certain benefits, to the Chief Executive, full time working director and executives of the Company are as follows:

	Chief Executive		Director		Executives	
	2003	2002	2003	2002	2003	2002
	(Rupees 000's)		(Rupees 000's)		(Rupees 000's)	
Managerial remuneration	400	400	320	240	11,617	10,553
House rent allowance	180	180	144	108	5,228	4,749
Medical expenses	20	20	16	12	581	528
	<u>600</u>	<u>600</u>	<u>480</u>	<u>360</u>	<u>17,426</u>	<u>15,830</u>
Number of persons	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>62</u>	<u>77</u>

The Company also provides the Chief Executive and some of the Directors and Executives with free use of cars and mobile phones.

33 Capacity and production

	Designed capacity Tons		Actual production Tons		Reason for shortfall
	2003	2002	2003	2002	
Caustic Soda	64,020	64,020	60,677	62,349	Production remained below the designated capacity because of technical fault in one of the rectifier transformer
Liquid Chlorine	9,900	9,900	8,219	7,470	Lack of demand
Hydrochloric Acid	123,750	123,750	77,757	68,002	Lack of demand
Sodium Hypochlorite	49,500	49,500	34,348	33,299	Lack of demand
Bleaching Earth	3,300	3,300	2,011	2,272	Market did not absorb the high price product resulting from levy of GST at 20% as compared to 15% in previous year
Sulphuric Acid	3,300	3,300	1,247	998	Captive usage
Zinc Sulphate	600	600	-	283	No production during the year due to low market demand of this product because of high price resulting from high input costs

34. TRANSACTIONS WITH RELATED PARTIES INCLUDING ASSOCIATED UNDERTAKINGS

The related parties including associated undertakings comprise, local associated undertakings, staff retirement funds, Directors and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

	2003	2002
	(RUPEES 000's)	
Marketing service charges	13,417	13,318
Sale of goods and services	18,722	18,690
Investment in shares	280	-
Advance against issue of shares	1,000	-
Contribution to staff retirement benefits plan	1,609	1,449

Sale and purchase transactions with associated undertakings are carried out on commercial terms and conditions. Services and commission are charged between associated undertakings on the basis of mutually agreed terms.

35. FINANCIAL INSTRUMENTS RELATED DISCLOSURES

35.1 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

35.2 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest rates. The Company manages this risk through risk management strategies. Interest rate risk of the Company's financial assets and financial liabilities as at June 30, 2003 can be evaluated from following schedule:

	Interest/markup bearing			Non - interest bearing			Total
	Maturity upto one year	Maturity more than one year and less than five years	Sub total	Maturity upto one year	Maturity more than one year and less than five years	Sub total	
------(Rupees 000's)-----							
Financial assets							
Long term Investments	-	-	-	-	57,538	57,538	57,538
Long term deposit	-	-	-	-	6,808	6,808	6,808
Trade debts	-	-	-	148,748	-	148,748	148,748
Advances deposits and other receivables	-	-	-	37,532	-	37,532	37,532
Cash and bank balances	20	-	20	286,722	-	286,722	286,742
	20	-	20	473,002	64,346	537,348	537,368
Financial liabilities							
Term finance certificates	-	250,000	250,000	-	-	-	250,000
Long term loans	70,770	328,945	399,715	-	40,000	40,000	439,715
Liabilities against assets subject to finance leases	507	218	725	-	-	-	725
Deferred liabilities	-	-	-	-	1,637	1,637	1,637
Refundable against oversubscribed TFC's	-	-	-	212,525	-	212,525	212,525
Creditors, accrued and other liabilities	-	-	-	144,076	-	144,076	144,076
Dividend	-	-	-	37,500	-	37,500	37,500
	71,277	579,163	650,440	394,101	41,637	435,738	1,086,178
On balance sheet gap	(71,257)	(579,163)	(650,420)	78,901	22,709	101,610	(548,810)
Unrecognised financial assets and financial liabilities							
Capital commitments	-	-	-	5,268	-	5,268	5,268
Letter of credit	-	-	-	33,566	-	33,566	33,566
Off balance sheet gap	-	-	-	38,834	-	38,834	38,834
Net financial assets/(liabilities)	(71,257)	(579,163)	(650,420)	40,067	22,709	62,776	(587,644)

Effective interest rates are mentioned in the respective notes to the accounts.

35.3 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to currency risk in respect of financial liabilities in United States dollars is Rs. 33.566 million (2002: Rs. 15.591 million).

35.4 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. The Company manages this risk through having exposures only to those parties which are considered to be credit worthy and obtaining security deposit wherever applicable. All financial assets except cash and bank balances are subject to credit risk.

35.5 Fair value of financial instruments

The carrying value of all the financial assets and financial liabilities are estimated to approximate their fair values.

36. NUMBER OF EMPLOYEES

Total number of employees (including contracted) at the year-end was 646 (2002: 642).

37. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 15, 2003 by the Board of Directors of the Company.

38. GENERAL

- i) Figures have been rounded off to the nearest rupees in thousand.
- ii) Corresponding figures have been re-arranged wherever necessary for the purpose of comparison.

- iii) During the year the Company has adopted the recognition and measurement principles specified in International Accounting Standard-39. This has no material effect on the financial results of the Company for the current or for prior years.

CHIEF EXECUTIVE

DIRECTOR

**Consolidated Financial Statements of
Ittehad Chemicals Limited
& its Subsidiary Company**

**ITTEHAD CHEMICALS LIMITED
AND ITS SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2003**

	NOTE	2003 (RUPEES 000's)	2002
NON CURRENT ASSETS			
Operating fixed assets	4	671,954	237,963
Mercury in cells		27,715	24,911
Mercury held for capital expenditure		1,228	1,926
Spares held for capital expenditure	5	82,620	28,168
		<u>783,517</u>	<u>292,968</u>
Long term investments	6	56,258	56,258
Long term security deposits		6,808	6,808
Pre-operating expenses	7	2,007	-
Deferred cost	8	3,312	-
		<u>851,902</u>	<u>356,034</u>
CURRENT ASSETS			
Stores and spares	9	106,778	98,224
Stock in trade	10	40,395	39,651
Trade debts	11	148,748	104,542
Advances, deposits, prepayments and other receivables	12	151,306	149,072
Cash and bank balances	13	287,014	16,203
		<u>734,241</u>	<u>407,692</u>
CURRENT LIABILITIES			
Current portion of long term liabilities	14	71,277	12,275
Short term running finances	15	56,967	103,927
Creditors, accrued and other liabilities	16	150,285	159,477
Refundable to unsuccessful subscribers of Term Finance Certificates	17	-	-
Dividend	18	37,500	37,500
		<u>528,554</u>	<u>313,179</u>
NET CURRENT ASSETS		<u>205,687</u>	<u>94,513</u>
		<u>1,057,589</u>	<u>450,547</u>

	NOTE	2003 (RUPEES 000's)	2002
Share capital	19	250,000	250,000
Unappropriated profits		160,870	151,228
Shareholder's equity		410,870	401,228
MINORITY INTEREST		70	-
NON CURRENT LIABILITIES			
Redeemable capital	20	250,000	-
Long term loans	21	368,945	21,782
Liabilities against assets subject to finance leases	22	218	725
Deferred liabilities	23	27,486	26,812
		646,649	49,319
CONTINGENCIES AND COMMITMENTS	24		
		1,057,589	450,547

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

**ITTEHAD CHEMICALS LIMITED
AND ITS SUBSIDIARY COMPANY
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2003**

	NOTE	2003	2002
		(RUPEES 000's)	
Sales	25	1,321,118	1,307,119
Cost of sales	26	1,156,066	1,125,734
Gross profit		165,052	181,385
Other income	27	2,705	18,624
		167,757	200,009
Administrative and selling expenses	28	70,490	83,559
Other charges	29	8,335	9,585
		78,825	93,144
Operating profit		88,932	106,865
Financial charges	30	12,871	10,405
Profit before taxation		76,061	96,460
Taxation	31		
Current		19,980	36,100
Prior		8,241	(7,166)
Deferred		698	14,719
		28,919	43,653
Profit after taxation		47,142	52,807
Unappropriated profit brought forward		151,228	135,921
Balance available for appropriation		198,370	188,728
Appropriation:			
Proposed dividend at 15% (2002: 15%)		37,500	37,500
Unappropriated profit carried forward		160,870	151,228
Earnings per share	32	Rs. 1.89	Rs. 2.11

Note: The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

**ITTEHAD CHEMICALS LIMITED
AND ITS SUBSIDIARY COMPANY
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2003**

	2003	2002
	(RUPEES 000's)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	76,061	96,460
Adjustments for items not involving movement of funds:		
Depreciation/amortization	18,176	19,642
Provision for gratuity (net)	(3)	205
Gain on sale of fixed assets	(590)	(40)
Mercury consumed	7,226	5,154
Provision for doubtful debts, advances and deposits (net of recovery)	763	603
Financial charges	12,871	10,405
Liabilities no longer payable	-	(1,840)
Deposits and advances written off	6	31
Gain on sale/transfer of investment	-	(15,888)
Provision for obsolete stores & spares	-	19,830
	114,510	134,562
Decrease/(Increase) in current assets		
Stores and spares	(63,006)	(15,592)
Stock in trade	(744)	4,027
Trade debts	(44,448)	27,350
Advances, deposits, prepayments and other receivables	5,311	(19,267)
	(102,887)	(3,482)
(Decrease)/Increase in current liabilities		
Refundable against oversubscribed amount of TFC's	212,525	-
Creditors, accrued and other liabilities	(14,966)	6,566
	209,182	137,646
Taxes paid	(35,766)	(103,101)
Gratuity paid	(21)	(25)
Net cash inflow from operating activities	173,395	34,520

2003 **2002**
(RUPEES 000's)

CASH FLOW FROM INVESTING ACTIVITIES

Additions to fixed assets	(68,964)	(30,590)
Adjustment for items not involving movement of funds:		
Transfer from capital work in progress	52,621	1,000
Transfer from leased to owned assets	6,400	17,500
	(9,943)	(12,090)
Additions to capital work in progress	(442,462)	(43,844)
Proceeds from sale of fixed assets	564	40
Mercury purchases	(9,332)	(8,556)
Long term investments	-	9,500
Long term deposits	-	1,679
Deferred cost and preoperating expenses	(5,318)	-
Minority interest	70	-
Net cash (outflow) from investing activities	(466,421)	(53,271)

CASH FLOW FROM FINANCING ACTIVITIES

Repayment of debentures	-	(538)
Issue of Term Finance Certificates	250,000	-
Long term loan	408,562	9,497
Liabilities against assets subject to finance lease	(3,167)	(2,759)
Financial charges paid	(7,098)	(10,773)
Dividend paid	(37,500)	(37,500)
Short term running finances	(46,960)	59,361
Net cash inflow from financing activities	563,837	17,288
Net increase/(decrease) in cash and cash equivalents	270,811	(1,463)
Cash and cash equivalents at the beginning of the year	16,203	17,666
Cash and cash equivalents at the end of the year 13	287,014	16,203

Note: The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

**ITTEHAD CHEMICALS LIMITED
AND ITS SUBSIDIARY COMPANY
CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003**

	Issued, subscribed and paid up Capital	Unappropriated profits	Total
	----- (Rupees 000's) -----		
Balance as at June 30, 2001	250,000	135,921	385,921
Profit after taxation for the year	-	52,807	52,807
Dividend	-	(37,500)	(37,500)
Balance as at June 30, 2002	250,000	151,228	401,228
Profit after taxation for the year	-	47,142	47,142
Proposed dividend	-	(37,500)	(37,500)
Balance as at June 30, 2003	250,000	160,870	410,870

CHIEF EXECUTIVE

DIRECTOR

**ITTEHAD CHEMICALS LIMITED
AND ITS SUBSIDIARY COMPANY
NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Ittehad Chemicals Limited (the Company) was incorporated on September 28, 1991 to takeover the assets of Ittehad Chemicals and Ittehad Pesticides under a Scheme of Arrangement dated June 18, 1992 as a result of which the Company became a wholly owned subsidiary of Federal Chemical and Ceramics Corporation (Private) Limited. The Company was privatised on July 03, 1995 when 90% of the shares were transferred to the buyer.

The Company was listed on Karachi Stock Exchange on April 14, 2003 when sponsors of the Company offered 25% of the issued, subscribed and paid up share of the Company to the general public.

The registered office of the Company is situated at 39, Empress Road, Lahore.

The Company is engaged in business of manufacturing and selling caustic soda and other allied chemicals.

- 1.2 Ittehad Energy Limited, (the subsidiary) was incorporated in Pakistan on December 20, 1995 as a public limited company under the Companies Ordinance, 1984. The address of its registered office is C-12, South Avenue, S.I.T.E. Karachi. The principal activity of the subsidiary upon implementation of project will be generation and transmission of power. The Company is in the process of deciding to set up a Coal – Fired Power Plant of 36 mega watts.

- 1.3 The Company has acquired 80% shares in the subsidiary on June 27, 2003.

2. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Ittehad Chemicals Limited and its subsidiary company. The financial statements of the parent and subsidiary companies are prepared upto same reporting date using consistent accounting policies and are combined on a line by line basis.

All intra company balances and transactions, if any, are eliminated

Minority interest is calculated on the basis of their proportionate share in the net assets of the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance 1984. Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

3.2 Cost convention

These accounts have been prepared under the historical cost convention without any adjustments for the effect of inflation or current values except for financial assets and liabilities, if any, in accordance with recognition and measurement criteria as laid down in IAS-39 and recognition of certain employee benefits at present value.

3.3 Staff retirement benefits

The Company operates an un-funded gratuity scheme for its permanent employees. Provision is based on actuarial valuation of the scheme carried out as at June 30, 2003 in accordance with IAS-19 "Employee Benefits" and the resulting vested portion of past service cost has been charged to income in the current year.

Contribution is made to this scheme on the basis of actuarial recommendations. Actuarial gains and losses at each valuation date are charged to profit and loss account. Gratuity is payable to staff on completion of prescribed qualifying period of service under the scheme.

A recognised provident fund scheme is also in operation, which covers all permanent employees. The Company and the employees make equal contributions.

3.4 Taxation

Current

The charge for current year is higher of the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates, if any, and minimum tax computed at the prescribed rate on turnover. The charge for current tax also

includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

The Company accounts for deferred taxation, if any, using the liability method on all major temporary differences.

3.5 Tangible fixed assets

These are stated at cost less accumulated depreciation and impairment, if any, except land and capital work in progress which are stated at cost. Cost comprises of actual cost including exchange differences, interest and charges referred to in notes 3.16 and 3.17 respectively.

Depreciation is charged on all fixed assets by applying the reducing balance method at the rates specified in fixed assets note.

Depreciation on major additions and modifications to production facilities during the year are charged for the period commencing from the date of commercial operation of the respective assets and on other additions for the whole year while no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred while cost of major replacements and improvements, if any, are capitalized.

Gains and losses on disposal and retirement of an asset are included in the profit and loss account.

3.6 Accounting for leases

The Company accounts for assets acquired under financial leases by recording the assets and related liabilities.

The amounts are determined on the basis of discounted value of total minimum lease payments and residual value of the assets at the end of the lease period to be paid by the Company.

Financial charges are allocated to accounting periods in a manner so as to provide constant periodic rate of charge on the outstanding liability.

Depreciation is charged at rates specified in the related note to write off the assets over its estimated useful life in view of certainty of the ownership of the assets at the end of the lease.

3.7 Mercury in cells

This is stated at annual moving average cost.

3.8 Mercury held for capital expenditure

This is stated at annual moving average cost.

3.9 Investments

Investments in associates are stated at acquisition cost less impairment, if any.

3.10 Preoperating expenses

These represent expenditure incurred on implementation of the project of subsidiary and the amount shall be capitalised on commencement of commercial operation.

3.11 Deferred cost

Expenses incurred on issue of Term Finance Certificates (TFC's) are amortised over a period of five years from the date of issue of TFC's.

Preliminary expenses of the subsidiary will be written off upon commencement of commercial operation.

3.12 Stores and spares

Stores and spares are valued at moving average cost less provision for obsolescence as determined by the management. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

3.13 Stock in trade

These are valued at lower of cost and net realisable value. Cost is determined as follows:

Raw and packing materials	- Moving average cost
Raw and packing materials in transit	- Invoice value plus other expenses incurred thereon

Work in process	- Cost of material as above plus proportionate production overheads
Finished goods	- Average cost of manufacture which includes proportionate production overheads including duties and taxes paid thereon, if any

Net realizable value represents estimated selling prices in the ordinary course of business less expenses incidental to making the sale.

3.14 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalent consists of cash in hand and balances with banks net of borrowings not considered as being in the nature of financing activities.

3.15 Impairment

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying value exceed recoverable amount, assets are written down to the recoverable amount.

3.16 Foreign currency translation

Assets and liabilities in foreign currencies, if any, are translated at exchange rates prevailing at the balance sheet date.

Exchange gains and losses arising on repayments and translation of foreign currency loans are capitalised and incorporated in the cost of fixed assets acquired from the proceeds of these loans. Other exchange differences arising during the year are included in profits currently.

3.17 Interest and charges

Interest and commitment charges on long term loans are capitalised for the period upto the date of commencement of commercial production of the respective plant and machinery acquired out of the proceeds of such loans. All other interest and charges are treated as expenses during the year.

3.18 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

3.19 Trade and other payables

Liabilities for trade and other amounts payable are carried at amortised cost.

3.20 Provisions

Provisions are recognized when the Company has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.21 Revenue recognition

Sales are recognised on despatch of goods to customers. Interest income is recognised on accrual basis.

3.22 Recoating expenses of DSA Plant

Provision has been made in these accounts for the erosion of coating on the anodes during the year based on best estimates available.

3.23 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Any gain or losses on de-recognition of the financial assets and financial liabilities are taken to profit and loss account currently.

3.24 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has legally enforceable right to setoff the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2 0 0 3 **2 0 0 2**
(RUPEES 000's)

5. SPARES HELD FOR CAPITAL EXPENDITURE

Spares in hand	78,000	28,168
Spares in transit	4,620	-
	82,620	28,168

6. LONG TERM INVESTMENTS

Investment in associates – Unquoted		
Chemi Visco Fibre Limited		
5,625,000 (2002:5,625,000) fully paid		
ordinary shares of Rs. 10/- each (Note: 6.1)		
Equity held: 7.91 % (2002: 7.91 %)	56,250	56,250
(Chief Executive: Mr. Usman Ghani Khatri)		
Held to maturity		
Other – Quoted		
National Bank of Pakistan Limited		
1995 (2002:1995) fully paid ordinary shares		
of Rs. 10/- each (Note: 6.2)	8	8
	56,258	56,258

6.1 Breakup value of unquoted investments based on latest audited accounts is Rs. 56.250 million (2002: Rs. 56.250 million).

6.2 Market value of quoted investments as at June 30, 2003 was Rs. 0.054 million (2002: Rs. 0.042 million).

BALANCE ADDITIONS BALANCE
AS ON DURING AS ON
30-06-2003 YEAR 01-07-2002
----- (RUPEES 000's) -----

7. PREOPERATING EXPENSES

Rent, rates and taxes	34	15	19
Legal and professional charges	1,119	19	1,100
Fee, registration and subscription	38	-	38
Printing and stationery	33	-	33
Traveling and conveyance	153	14	139
Entertainment	2	-	2
Audit fee	45	10	35
Bank charges	1	-	1
Testing, advisory, consultancy fee	559	554	5
Telephone expenses	2	2	-
Repair and maintenance	21	21	-
	<u>2,007</u>	<u>635</u>	<u>1,372</u>

2 0 0 3 **2 0 0 2**
(RUPEES 000's)

8. DEFERRED COST

Expenses incurred on issue of Term Finance Certificates	3,269	-
Preliminary expenses of subsidiary	43	-
	<u>3,312</u>	<u>-</u>

9. STORES AND SPARES

Stores	14,709	27,146
Spares	114,166	93,263
Loose tools	335	247
	<u>129,210</u>	<u>120,656</u>
Less: Provision for obsolete stores and spares	22,432	22,432
	<u>106,778</u>	<u>98,224</u>

2 0 0 3 **2 0 0 2**
(RUPEES 000's)

10. STOCK IN TRADE

Raw materials	17,386	18,939
Packing materials	363	477
Work in process	1,112	1,098
Finished goods	21,534	19,137
	<u>40,395</u>	<u>39,651</u>

11. TRADE DEBTS

Secured		
Considered good	68,418	34,164
Unsecured		
Considered good (Note: 11.1)	80,330	70,378
Considered doubtful	23,259	23,017
	<u>103,589</u>	<u>93,395</u>
	<u>172,007</u>	<u>127,559</u>
Less: Provision for doubtful debts	23,259	23,017
	<u>148,748</u>	<u>104,542</u>

11.1 These include balances due from associated companies aggregating to Rs. 1.838 million (2002: Rs. 15.214 million) comprising of the following:

Jehlum Silk Mills (Private) Limited	-	7,891
Chemi Viscofibre Limited	289	-
Chemitex Industries Limited	1,407	6,509
Chemi Dyestuff Industries (Private) Limited	138	690
Dyechem Industries (Private) Limited	4	124
	<u>1,838</u>	<u>15,214</u>

Maximum aggregate amount remaining outstanding from associated companies at the end of any month during the year was Rs. 21.478 million. (2002: Rs. 25.650 million).

2003 **2002**
(RUPEES 000's)

**12. ADVANCES, DEPOSITS, PREPAYMENTS
AND OTHER RECEIVABLES**

Advances – (Unsecured-considered good)		
To employees	2,199	1,849
For supplies and services (Note: 12.1)	7,747	6,894
Against purchase of machinery	-	1,000
Against import	18,971	24,410
Income tax (Note: 12.2)	111,856	104,316
	140,773	138,469
Considered doubtful		
For supplies and services	1,225	1,221
	141,998	139,690
Less: Provision for doubtful advances	1,225	1,221
	140,773	138,469
Trade deposits		
Considered good	6,769	7,278
Considered doubtful	364	-
	7,133	7,278
Less: Provision for doubtful deposits	364	-
	6,769	7,278
Prepayments	1,918	1,802
Other receivables		
Income tax refundable	1,473	1,468
Others	373	55
	1,846	1,523
	151,306	149,072

12.1 These include a balance due from Chemi Multifabrics Limited, an Associated Company, amounting to Rs. 0.213 million (2002: NIL).

2003 **2002**
(RUPEES 000's)

12.2 The amount comprises as follows:

Advance income tax	172,723	250,351
Less: Provision for tax	60,867	146,035
	111,856	104,316

13. CASH AND BANK BALANCES

Cash in hand	479	1,374
Cash at banks		
In current accounts (Note: 13.1)	286,515	14,690
In deposit accounts	20	139
	286,535	14,829
	287,014	16,203

13.1 This includes an amount of Rs. 212.525 million being refundable to unsuccessful subscribers of TFC issue.

14. CURRENT PORTION OF LONG TERM LIABILITIES

Long term loans (Note: 21)	70,770	9,371
Liabilities against assets subject to finance leases (Note: 22)	507	2,904
	71,277	12,275

2 0 0 3 **2 0 0 2**
(RUPEES 000's)

15. SHORT TERM RUNNING FINANCES

Secured

Muslim Commercial Bank Limited (Note: 15.1)	1,703	49,013
Prime Commercial Bank Limited (Note: 15.2)	2	33,439
Metropolitan Bank Limited (Note: 15.3)	-	21,475
Askari Commercial Bank Limited (Note: 15.4)	55,262	-
	56,967	103,927

15.1 This facility is secured against first pari passu charge on fixed and current assets of the Company and hypothecation of stock of chemicals and carries mark-up at 8.50% per annum. The limit of facility is Rs. 60.000 million (2002: Rs. 50.000 million).

15.2 This facility is secured against first pari passu charge on fixed and current assets of the Company and hypothecation charge over stocks and receivables and carries mark-up at 10.00% per annum. The limit of facility is Rs. 30.000 million (2002: Rs. 30.000 million).

15.3 This facility is secured against second charge on fixed assets of the Company and hypothecation charge over stocks and receivables of the Company and carries mark-up at 7.50% per annum. The limit of facility is Rs. 40.000 million (2002: Rs. 20.000 million).

15.4 This facility is secured against first pari passu hypothecation charge over current assets of the Company and carries mark-up at 7.00% per annum. The limit of facility is Rs. 80.000 million (2002: NIL).

16. CREDITORS, ACCRUED AND OTHER LIABILITIES

Trade creditors	10,909	8,652
Accrued liabilities (Note: 14.1)	88,971	96,509
Advances from customers	10,137	22,469
Deposits-interest free repayable on demand	13,673	12,891

	2 0 0 3	2 0 0 2
	(RUPEES 000's)	
Accrued mark up/interest		
Secured		
Short term running finances	3,136	2,151
Long term loans	4,649	615
Term finance certificates	754	-
	8,539	2,766
Unsecured		
Interest payable of electricity bills	-	138
	8,539	2,904
Due to associated companies		
Jehlum Silk Mills (Private) Limited	6,073	-
Chemitex Industries Limited	50	-
Chemi Dansk Company (Private) Limited	2	-
	6,125	-
Sales tax payable	4,529	3,654
Income tax deducted at source	269	158
Worker's profit participation fund (Note: 16.2)	4,203	5,360
Workers welfare fund	2,852	6,311
Other liabilities – others	78	569
	150,285	159,477

16.1 These include a balance due to Chemi Multifabrics Limited, an Associated Company amounting to NIL (2002: Rs. 3.405 million)

16.2 Worker's profit participation fund

Balance as on July 01,	5,360	5,628
Interest at prescribed rate	299	353
	5,659	5,981
Less: Amount paid to fund	5,536	5,825
	123	156
Current year's allocation at 5%	4,080	5,204
Closing balance as at June 30	4,203	5,360

The Company retains the allocation of this fund for its business operations till the amounts are paid to the fund.

**17. REFUNDABLE TO UNSUCCESSFUL SUBSCRIBERS
OF TERM FINANCE CERTIFICATES**

This represents the oversubscribed amount of Term Finance Certificates, which was refunded after the results of balloting. As on June 30, 2003 this amount is shown under current assets as mentioned in Note 11.

	2 0 0 3	2 0 0 2
	(RUPEES 000's)	
18. DIVIDEND		
Proposed	<u>37,500</u>	<u>37,500</u>
19. ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
100,000 Ordinary shares of Rs.10/- each fully paid in cash	1,000	1,000
24,900,000 Ordinary shares of Rs.10/- each issued as fully paid for consideration other than cash	<u>249,000</u>	<u>249,000</u>
<u>25,000,000</u>	<u>250,000</u>	<u>250,000</u>

20. REDEEMABLE CAPITAL

Term finance certificates (TFCs) – Secured

The TFCs have been issued as fully paid scripts of Rs. 5,000 denomination or exact multiple thereof for general public and Rs. 100,000 denomination or exact multiple thereof for Pre-IPO investors. These are listed on Karachi Stock Exchange (Guarantee) Limited subsequent to the balance sheet date i.e. July 30, 2003.

Terms and conditions

Call option

The Company may redeem the TFCs by way of the exercise of the call option by giving notice in writing to the TFC holders and the Trustee at least sixty days prior to the option redemption date. The call option will be exercisable after a period of 18 months from the last date of public subscription.

The call option may only be exercised by the Company with respect to all of the outstanding TFCs.

Put option

The investors have no right to exercise put option.

Rate of return

The return on TFCs is payable semi annually and is calculated at the State Bank of Pakistan's discount rate plus 2.50% per annum with a floor of 7% per annum and cap of 12% per annum.

Principal redemption

Principal amount shall be redeemed in six semi annual installments after a grace period of twenty four months from the last date of public subscription.

Security

The TFCs are secured by way of first pari passu charge on all present and future fixed assets of the Company with 15% margin by hypothecation charge and memorandum confirming constructive deposit of title deeds.

Trustee

In order to secure the interests of the TFC holders, ORIX Investment Bank Pakistan Limited (ORIX) has been appointed as Trustee for the Issue. ORIX will be paid trustee fee at 0.035% per annum of the outstanding principal. The fee shall be payable at the beginning of each year commencing from the date of signing of Trust Deed and on subsequent anniversary thereof.

The Trustee shall ensure that the terms and conditions of the security documents are adhered to and that the interests of the TFC holders are safe guarded by taking actions that it deems necessary in the event of any breach of terms and conditions of the TFC instrument, the Trust Deed and the security documents by the Company.

Redemption reserve

No redemption reserve has been established for redemption of TFCs in view of the projected financial cash flows. The Company shall have adequate funds to meet its financial obligations arising from the issue of TFCs.

	2003	2002
	(RUPEES 000's)	
21. LONG TERM LOANS		
Secured		
Banking companies		
Metropolitan Bank Limited (Note: 21.1)	19,372	-
Askari Commercial Bank Limited (Note: 21.2)	100,000	-
Financial institutions		
Saudi Pak Agricultural and Industrial Corporation (Note: 21.3)	5,346	14,028
Saudi Pak Agricultural and Industrial Corporation (Note: 21.4)	75,000	-
Pakistan Industrial Credit and Investment Corporation Limited (Note: 21.5)	199,997	-
	<u>399,715</u>	<u>14,028</u>
Less: Current portion shown under current liabilities (Note : 14)	70,770	9,371
	<u>328,945</u>	<u>4,657</u>
Unsecured (Note: 21.6)		
Loans from directors	13,617	7,000
Others	26,383	10,125
	<u>40,000</u>	<u>17,125</u>
	<u>368,945</u>	<u>21,782</u>

21.1 This finance is secured against second charge over fixed assets of the Company, and carries markup at 8.00% per annum (SBP discount rate plus 4.5% with maximum of 18.50%) per annum. Loan is repayable in eight equal quarterly installments commencing from April 2003. Last installment is due in February 2005.

21.2 This finance is secured against first pari passu charge over fixed assets of the Company and carries mark up at the rate of 8.50 % (1% above SBP discount rate) per annum. Loan is repayable in ten equal quarterly installments commencing from December 2003. Last installment is due in March 2006.

- 21.3 The finance is secured against first pari passu charge over present and future fixed assets of the Company and carries mark up at the rate of 10% per annum (SBP discount rate plus 3 % with minimum of 10 % and maximum of 19.5 % to be paid on quarterly basis), [2002: mark up rate at 17.5 % per annum (SBP discount rate plus 4.50% with maximum of 18.50 percent) per annum]. Loan is repayable in six biannual installments. Last installments is due in October, 2003.
- 21.4 This finance is secured against first pari passu charge over present and future fixed assets of the Company and carries mark up at the rate of 10% (SBP discount rate plus 3% with minimum at 10 % and maximum at 19.5 %) per annum. Loan is repayable in fourteen equal quarterly installments commencing from November 2004. Last installment is due in February 2008.
- 21.5 This finance is secured against first pari passu charge over all assets of the Company except inventories and carries mark up at the rate of 9.50 % (SBP discount rate plus 2 % subject to a floor of 9.5 %) per annum. Loan is repayable in twenty quarterly installments commencing from March 2003. Last installment is due in September 2008.
- 21.6 These loans are unsecured, interest free and are repayable subject to permission of lenders of long term loans.

2003 **2002**
(RUPEES 000's)

**22. LIABILITIES AGAINST ASSETS
SUBJECT TO FINANCE LEASES**

Secured	2003	2002
Balance as on July 01,	3,629	5,147
Addition during the year	-	1,241
	3,629	6,388
Less: Payments during the year	2,904	2,759
	725	3,629
Less: Payable within on year shown under current liabilities (Note: 14)	507	2,904
	218	725

The above liabilities represent the unpaid balance of the total of minimum lease payments and the residual value payable at the end of lease discounted at rates ranging from 9% to 15.6% per annum.

Remaining aggregate rentals of Rs. 0.760 million inclusive of mark-up of Rs. 0.035 million are payable in equal monthly instalments under various lease agreements as follows:

	Upto one Year	One to five Years	Total 2003	Total 2002
Minimum lease payments outstanding	540	220	760	3,927
Less: Finance charges not due	33	2	35	298
Present value of minimum lease payments	507	218	725	3,629
Less: Current portion shown under current liabilities			507	2,904
			218	725

In case of termination of the agreement, the Company shall pay the entire amount of rentals for unexpired period of lease agreement.

Taxes, repair and insurance cost are to be borne by the Company.

Liabilities are secured against personal guarantees of Directors, demand promissory notes and bills of exchange and security deposits of Rs 0.113 million and Rs 0.044 million (2002: Rs 0.113 million and Rs.0.224 million) included in long term security deposits and advances, deposits and prepayments respectively.

At the end of the lease period, the ownership of the assets shall be transferred to the Company on payment of residual values.

2 0 0 3 **2 0 0 2**
(RUPEES 000's)

23. DEFERRED LIABILITIES

Provision for gratuity (Note: 23.1 and 32)	1,637	1,661
Deferred taxation (Note: 23.2)	25,849	25,151
	<u>27,486</u>	<u>26,812</u>

23.1 Consequent to a change in accounting policy, provision for gratuity has now been accounted for on the basis of actuarial valuation as per IAS-19, Employees benefits. If there had been no change in policy the profit for the year and accumulated profits would have been lower by Rs. 0.287 million.

23.2 Deferred tax liability comprises as follows:

Taxable temporary differences		
Tax depreciation allowances	25,208	24,040
Finance lease arrangements	70	1,204
Deferred cost	1,144	-
	<u>26,422</u>	<u>25,244</u>
Deductible temporary differences		
Provision for gratuity	(573)	(93)
	<u>25,849</u>	<u>25,151</u>

24. CONTINGENCIES AND COMMITMENTS

24.1 Contingent liabilities

a) A writ petition has been filed by Saigol Brothers Limited, against the issue of debentures valuing Rs. 1.482 million (2002: Rs. 1.482 million) being the price of a grid station which originally belonged to them.

These debentures were issued to the income tax authorities in compliance with notice under section 92 of the Income Tax Ordinance, 1979 received by the Company. SBL has claimed that the action of all respondents is wholly without lawful authority and that the respondent could not by unilateral action purchase the said grid station at an arbitrary price of their own choice. SBL had demanded Rs. 4.200 million being a fair price of the grid station at the time of take over.

c) Claim lodged by Saigol Brothers Limited of Rs. 2.608 million (2002: Rs. 2.608 million) on account of rent of storage tanks at Faisalabad used by the Company from July 1, 1973 to March 10, 1982 of which only Rs. 0.044 million (2002: Rs. 0.044 million) has been acknowledged and provided for in the accounts.

d) During the year a demand created for assessment year 1996-97 with respect to disallowance of expenditure of non-deduction of with holding tax on payment under Golden Hand Shake and Voluntary Separation Scheme amounting to Rs. 56.437 million has been set aside by the Honorable Income Tax Appellate Tribunal (ITAT) with direction to determine the tax liability using specified methodology. The management is

of the view that no liability accrues on these payments and, therefore, filed an appeal to the Learned Lahore High Court. As the information required to compute the tax on the basis of directions given by ITAT is not available, the potential liability can not be determined.

- f) Deputy Commissioner of Income Tax (DCIT) created a demand of Workers Welfare Fund (WWF) amounting to Rs. 1.139 million on the basis of disallowance of expenditure as explained in (c) above in respect of assessment year 1996-97. Subsequently Income Tax Appellate Tribunal (ITAT) has set aside the demand as a consequence of which loss of Rs. 74.296 million has been assessed. The Company has filed rectification application for deletion of the WWF demand.
- g) Department has filed an appeal against the order of Commissioner of Income Tax (Appeals) (CIT) in respect of assessment year 2001-2002 for allowing expenditure including bad debts amounting to Rs. 6.333 million. In the event of adverse decision in appeal the Company would be faced with a tax liability and charge against profit of Rs. 2.723 million (2002: NIL)
- f) There is a contingent liability in respect of various show cause notices issued with respect to sales tax audits conducted for the years 1994-95 to 2001-2002 for recovery of sales tax amounting to Rs. 19.208 million (2002: Rs. 16.434 million) along with additional tax to be calculated at the time of deposit. The management is contesting the show cause notices before the department and expect favorable decisions in the above cases. In the event of adverse decisions the Company would be faced with a tax liability and charge against profit of Rs. 19.208 million. (2002: Rs.16.434 million).
- g) Letters of guarantee outstanding as at June 30, 2003 were for Rs. 19.175 million (2002: Rs.19.079 million).

24.2 Commitments

Commitments as on June 30, 2003 were as follows:

Letters of credit outstanding amounted to Rs. 33.566 million (2002: Rs. 15.591 million)

Capital commitments amounted to Rs. 5.268 million (2002: Rs. 175.408 million).

	2 0 0 3	2 0 0 2
	(RUPEES 000's)	
25. SALES		
Sales		
Manufacturing (Note: 25.1)	1,550,097	1,524,973
Trading	261	11,064
	1,550,358	1,536,037
Less: Sales tax	208,784	204,289
Commission	20,456	24,629
	229,240	228,918
	1,321,118	1,307,119

25.1 The amount under this head includes export sales amounting to Rs. 3.218 million (2002: Rs. 0.841 million).

	2 0 0 3	2 0 0 2
	(RUPEES 000's)	
26. COST OF SALES		
Raw materials consumed		
Opening stock	18,939	27,270
Purchases	117,837	120,085
	136,776	147,355
Closing stock	(17,385)	(18,939)
	119,391	128,416
Other overheads		
Stores and spares consumed	72,878	64,366
Packing materials consumed	885	2,174
Production supplies consumed	4,491	9,560
Mercury consumed	7,226	5,154
Salaries, wages and benefits (Note: 26.1)	57,254	44,868
Fuel and power	845,003	809,786
Repairs and maintenance	23,624	26,661
Insurance	2,721	2,594
Depreciation (Note: 4.3)	16,265	18,413
Vehicle running expenses	5,205	4,303
Postage, printing and stationery	2,030	1,963
Other expenses	1,244	2,247

	1,038,826	992,089
Work in process		
Opening	1,098	1,660
Closing	(1,113)	(1,098)
	(15)	562
Cost of goods manufactured	1,158,202	1,121,067
Finished goods		
Opening	19,137	13,655
Purchases of trading goods	261	10,149
Closing	(21,534)	(19,137)
	(2,136)	4,667
	1,156,066	1,125,734

26.1 This amount includes Rs 1.184 million (2002: Rs. 1.080 million) in respect of employees' retirement benefits.

2003 **2002**
(RUPEES 000's)

27. OTHER INCOME

Return on bank deposits and investment		
Certificates	3	226
Gain on sale of fixed assets	590	40
Recovery of bad debts	449	60
Sales of scrap	1,240	485
Rental income on chlorine cylinders	147	75
Gain on sale of investments	-	15,888
Liabilities no longer payable	-	1,850
Reversal of provision of gratuity due to application of IAS – 19 (Note: 21.1)	276	-
	2,705	18,624

28. ADMINISTRATIVE AND SELLING EXPENSES

Salaries, wages and benefits (Note: 28.1)	21,698	19,046
Travelling and conveyance	6,305	3,408
Advertisement	1,249	612
Telephone, telex and postage	1,442	2,017
Marketing service charges	13,416	13,318

Freight	18,930	18,767
Rent, rates and taxes	1,729	1,571
Printing and stationery	1,195	891
Fuel and power	1,027	1,125
Provision for bad and doubtful debts	1,128	603
Advances and deposits written off	6	531
Provision for obsolete stores and spares	-	19,830
Repair and maintenance	454	610
Depreciation (Note: 4.3)	1,911	1,230
	<u>70,490</u>	<u>83,559</u>

28.1 This amount includes Rs 0.425 million (2002: Rs. 0.369 million) in respect of employees' retirement benefits.

2 0 0 3 **2 0 0 2**
(RUPEES 000's)

29. OTHER CHARGES

Legal and professional charges	583	1,574
Expenses on listing of the Company	1,224	-
Auditor's remuneration		
Audit fee	125	110
Tax and certification charges	330	249
Out of pocket expenses	12	18
	467	377
Workers' profit participation fund (Note: 16.2)	4,080	5,204
Workers' welfare fund	1,163	1,688
Donations (Note: 29.1)	818	742
	<u>8,335</u>	<u>9,585</u>

29.1 Donations do not include any donee in whom any Director of the Company or his spouse has any interest.

30. FINANCIAL CHARGES

Markup/interest on:		
Long term loan	1,392	3,064
Mark up on finance leases	263	632
Secured short term running finances	9,777	5,121
Workers' profit participation fund	299	353
	<u>11,731</u>	<u>9,170</u>

Bank charges and commission	1,117	1,235
Exchange loss	23	-
	<u>12,871</u>	<u>10,405</u>
	2003	2002
	(RUPEES 000's)	

**31. NUMERICAL RECONCILIATION BETWEEN
THE AVERAGE EFFECTIVE TAX RATE
AND THE APPLICABLE TAX RATE**

	(P e r c e n t a g e)	
Applicable tax rate	35.00	45.00
Tax effect of amount that are:		
Deductible for tax purposes	(18.47)	(18.68)
Not deductible for tax purposes	10.38	11.42
Effect of charge in prior years	10.83	(7.43)
Chargeable to tax at different rates	(0.64)	(0.30)
Effect of deferred tax charge	0.92	15.25
	<u>3.02</u>	<u>0.26</u>
Average effective tax rate charged to profit and loss account	<u>38.02</u>	<u>45.26</u>

32. EARNINGS PER SHARE – BASIC AND DILUTED

Profit after taxation	<u>47,142</u>	<u>52,807</u>
	Number of shares (000's)	
Average issued ordinary shares	<u>25,000</u>	<u>25,000</u>
Earnings per share	<u>Rs. 1.89</u>	<u>Rs. 2.11</u>

33. DEFINED BENEFIT PLAN

33.1 General description

The scheme provides for terminal benefits for all the permanent employees who qualify for the scheme. The defined benefit payable to each employee at the end of his service

comprises of total number of years of his service multiplied by last drawn basic salary including cost of living allowance.

Annual charge is based on actuarial valuation carried out as at June 30, 2003 using the Projected Unit Credit Method.

33.2 Significant actuarial assumptions

Following are significant actuarial assumptions used in the valuation:

Discount rate	8% per annum
Expected rate of increase in salary	7% per annum

2003 **2002**
(RUPEES 000's)

33.3 Reconciliation of payable to defined benefit plan

Present value of obligation	1,597	-
Unrecognized actuarial loss	40	-
Liability recognized in balance sheet	<u>1,637</u>	<u>-</u>

33.4 Movement of the liability recognized in the balance sheet

Opening net liability	1,661	-
Reversal of liability due to actuarial valuation	(276)	-
	<u>1,385</u>	<u>-</u>
Charge for the year	273	-
Contribution paid to outgoing employees	(21)	-
Closing net liability	<u>1,637</u>	<u>-</u>

33.5 Charge for the year

Current service cost	162	-
Interest cost	111	-
Charge for the year	<u>273</u>	<u>-</u>

36. TRANSACTIONS WITH RELATED PARTIES INCLUDING ASSOCIATED UNDERTAKINGS

The related parties including associated undertakings comprise, local associated undertakings, staff retirement funds, Directors and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

	2003	2002
	(RUPEES 000's)	
Marketing service charges	13,417	13,318
Sale of goods and services	18,722	18,690
Contribution to staff retirement benefits plan	1,609	1,449

Sale and purchase transactions with associated undertakings are carried out on commercial terms and conditions. Services and commission are charged between associated undertakings on the basis of mutually agreed terms.

37. FINANCIAL INSTRUMENTS RELATED DISCLOSURES

37.1 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

37.3 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to currency risk in respect of financial liabilities in United States dollars is Rs. 33.566 million (2002: Rs. 15.591 million).

37.4 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. The Company manages this risk

through having exposures only to those parties which are considered to be credit worthy and obtaining security deposit wherever applicable. All financial assets except cash and bank balances are subject to credit risk.

37.5 Fair value of financial instruments

The carrying value of all the financial assets and financial liabilities are estimated to approximate their fair values.

38. NUMBER OF EMPLOYEES

Total number of employees (including contracted) at the year-end was 646 (2002: 642).

39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 15, 2003 by the Board of Directors of the Company.

40. GENERAL

- i) Figures have been rounded off to the nearest rupees in thousand.
- iii) Corresponding figures have been re-arranged wherever necessary for the purpose of comparison.
- iii) During the year the Company has adopted the recognition and measurement principles specified in International Accounting Standard-39. This has no material effect on the financial results of the Company for the current or for prior years.

4. OPERATING FIXED ASSETS

PARTICULARS	C	O	S	T	RATE %	D E P R E C I A T I O N				WRITTEN DOWN VALUE AS ON 30-06-2003
	AS ON 01-07-2002	ADDITIONS DURING THE YEAR	(DELETION) DURING THE YEAR	AS ON 30-06-2003		AS ON 01-07-2002	(ADJUSTMENT)	FOR THE YEAR	AS ON 30-06-2003	
Owned										
Freehold land	486	-	-	486	-	-	-	-	-	486
Lease hold land	-	5,237	-	5,237	-	-	-	-	-	5,237
Buildings on freehold land	34,183	-	-	34,183	5 - 10	13,575	-	2,034	15,609	18,574
Railway sidings	1,950	-	-	1,950	10	1,519	-	43	1,562	388
Plant and machinery	227,957	58,121	-	286,078	10	126,459	1,045	11,413	138,917	147,161
Other equipments	33,363	72	-	33,435	15	21,366	-	1,810	23,176	10,259
Furniture and fixtures	2,072	665	-	2,737	10	930	-	181	1,111	1,626
Office and other equipments (Note: 3.1)	4,926	1,826	-	6,752	15 – 30	2,615	-	897	3,512	3,240
Vehicles	15,467	3,011	(1,122)	17,356	20 – 25	10,318	(560)	1,417	11,175	6,181
	320,404	68,932	(1,122)	388,214		176,782	485	17,795	195,062	193,152
Leased										
Vehicles	2,580	32	(900)	1,712	20	730	(324)	381	787	925
Plant and machinery	5,500	-	(5,500)	-	10	1,045	(1,045)	-	-	-
	328,484	68,964	(7,522)	389,926		178,557	(884)	18,176	195,849	194,077
Capital work in progress										
Plant and machinery (4.2)	88,036	428,778	(52,621)	464,193	-	-	-	-	-	464,193
Building – Cell Room	-	13,684	-	13,684	-	-	-	-	-	13,684
	88,036	442,462	(52,621)	477,877	-	-	-	-	-	477,877
TOTAL RUPEES – 2003	416,520	511,426	(60,143)	867,803	-	178,557	(884)	18,176	195,849	671,954
TOTAL RUPEES – 2002	359,345	75,675	(18,500)	416,520	-	158,915	-	19,642	178,557	237,963

4.1 During the year the rate of depreciation on computer equipment has been revised. Had there been no change in rate, the depreciation for the year would have been lower by Rs. 0.276 million.

4.2 Additions in plant and machinery includes interest and charges amounting to Rs. 21.950 million on finances used for the new project.

	Note	2003 RUPEES "000"	2002 RUPEES "000"
4.3 Depreciation charge for the year has been allocated as under :			
Cost of Sales	26	16,265	18,413
Administrative and selling expenses	27	1,911	1,229
		<u>18,176</u>	<u>19,642</u>

4.4 Details of fixed assets sold during the year through negotiations are as follows:

Assets description	Cost	Accumulated Depreciation	Written down value	Sale proceeds	Particulars of purchaser
Vehicles	364	364	-	170	Saima Javed, Lahore
	194	194	-	95	Malik Waseem, Lahore
	564	326	238	564	Abdul Hamid, Jehlum
	<u>1,122</u>	<u>884</u>	<u>238</u>	<u>829</u>	

37.2 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest rates. The Company manages this risk through risk management strategies. Interest rate risk of the Company's financial assets and financial liabilities as at June 30, 2003 can be evaluated from following schedule:

	Interest/markup bearing			Non - interest bearing			Total
	Maturity upto one year	Maturity more than one year and less than five years	Sub total	Maturity upto one year	Maturity more than one year and less than five years	Sub total	
------(Rupees)-----							
Financial assets							
Long term Investments	-	-	-	-	56,258	56,258	56,258
Long term deposit	-	-	-	-	6,808	6,808	6,808
Trade debts	-	-	-	148,748	-	148,748	148,748
Advances deposits and other receivables	-	-	-	37,532	-	37,532	37,532
Cash and bank balances	20	-	20	287,014	-	286,994	287,014
	20	-	20	473,274	63,066	536,340	536,360
Financial liabilities							
Term finance certificates	-	250,000	250,000	-	-	-	250,000
Long term loans	70,770	328,945	399,715	-	40,000	40,000	439,715
Liabilities against assets subject to finance leases	507	218	725	-	-	-	725
Deferred liabilities	-	-	-	-	1,637	1,637	1,637
Refundable against oversubscribed TFC's	-	-	-	212,525	-	212,525	212,525
Creditors, accrued and other liabilities	-	-	-	150,285	-	150,285	150,285
Dividend	-	-	-	37,500	-	37,500	37,500
	71,277	579,163	650,440	400,310	41,637	441,947	1,092,387
On balance sheet gap	(71,257)	(579,163)	(650,420)	72,964	21,429	94,393	(556,027)
Unrecognised financial assets and financial liabilities							
Capital commitments	-	-	-	5,268	-	5,268	5,268
Letter of credit	-	-	-	33,566	-	33,566	33,566
Off balance sheet gap	-	-	-	38,834	-	38,834	38,834
Net financial assets/(liabilities)	(71,257)	(579,163)	(650,420)	34,130	21,429	55,559	(594,861)

Effective interest rates are mentioned in the respective notes to the accounts.

34 Remuneration of Chief Executive, Director and Executives

The aggregate amount charged in the accounts for the year for remuneration, including certain benefits, to the Chief Executive, full time working director and executives of the Company are as follows:

	Chief Executive		Director		Executives	
	2003	2002	2003	2002	2003	2002
	(Rupees 000's)		(Rupees 000's)		(Rupees 000's)	
Managerial remuneration	400	400	320	240	11,617	10,553
House rent allowance	180	180	144	108	5,228	4,749
Medical expenses	20	20	16	12	581	528
	<u>600</u>	<u>600</u>	<u>480</u>	<u>360</u>	<u>17,426</u>	<u>15,830</u>
Number of persons	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>62</u>	<u>77</u>

The Company also provides the Chief Executive and some of the Directors and Executives with free use of cars and mobile phones.

35 Capacity and production

	Designed capacity Tons		Actual production Tons		Reason for shortfall
	2003	2002	2003	2002	
Caustic soda	64,020	64,020	60,677	62,349	Production remained below the designated capacity because of technical fault in one of the rectifier transformer
Liquid chlorine	9,900	9,900	8,219	7,470	Lack of demand
Hydrochloric acid	123,750	123,750	77,757	68,002	Lack of demand
Sodium Hypochlorite	49,500	49,500	34,348	33,299	Lack of demand
Bleaching earth	3,300	3,300	2,011	2,272	Market did not absorb the high price product resulting from levy of GST at 20% as compared to 15% in previous year
Sulphuric acid	3,300	3,300	1,247	998	Captive usage
Zinc sulphate	600	600	-	283	No production during the year due to low market demand of this product because of high price resulting from high input costs